



ANNUAL REPORT

1988

Le Groupe SGF

The mission of Société générale de financement is to promote and execute, in cooperation with partners, industrial development projects in strategic sectors in accordance with the economic policies of the Government of Québec.

In this capacity, SGF manages a group of larger manufacturing enterprises and is responsible for the planning and development of the companies it controls, in accordance with criteria of growth and profitability.

SGF was established in 1962 and its shareholder is the Government of Québec. With net earnings of \$147.0 million in 1988 and assets of \$1.19 billion, SGF is one of the largest industrial groups in Québec.

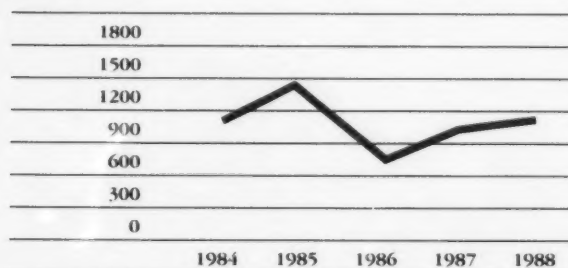
At December 31, 1988, SGF was active in aluminum production, petrochemicals, forest products, and shipbuilding and energy-related equipment manufacturing.

In addition, with a view to furthering an integrated approach to industrial development initiatives based on Québec's specific advantages, SGF is entering two new industries: transportation equipment and metals and minerals. These two sectors were chosen on the basis of their potential for growth, earnings and synergy.

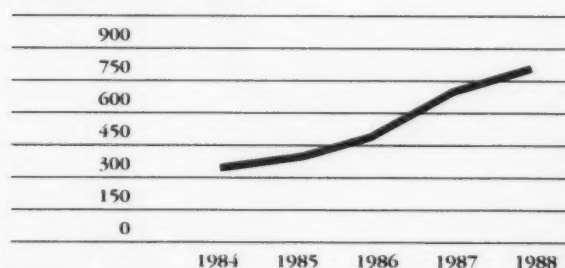
Financial Highlights – SGF

(millions of dollars except percentages)

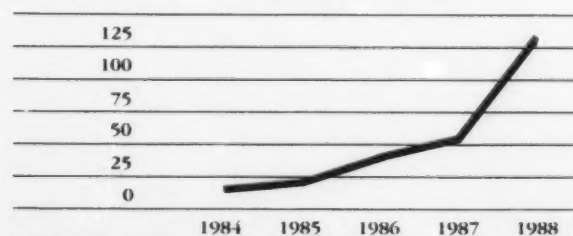
ASSETS



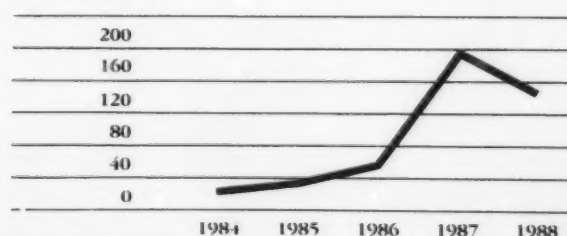
SHAREHOLDER'S EQUITY



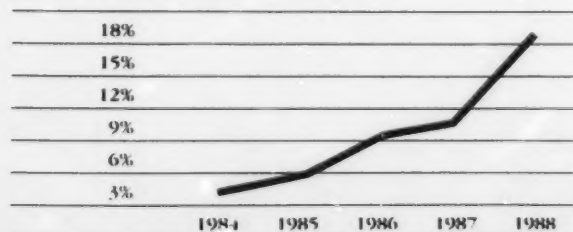
EARNINGS BEFORE EXTRAORDINARY ITEMS



NET EARNINGS



RETURN ON SHAREHOLDER'S EQUITY BEFORE EXTRAORDINARY ITEMS

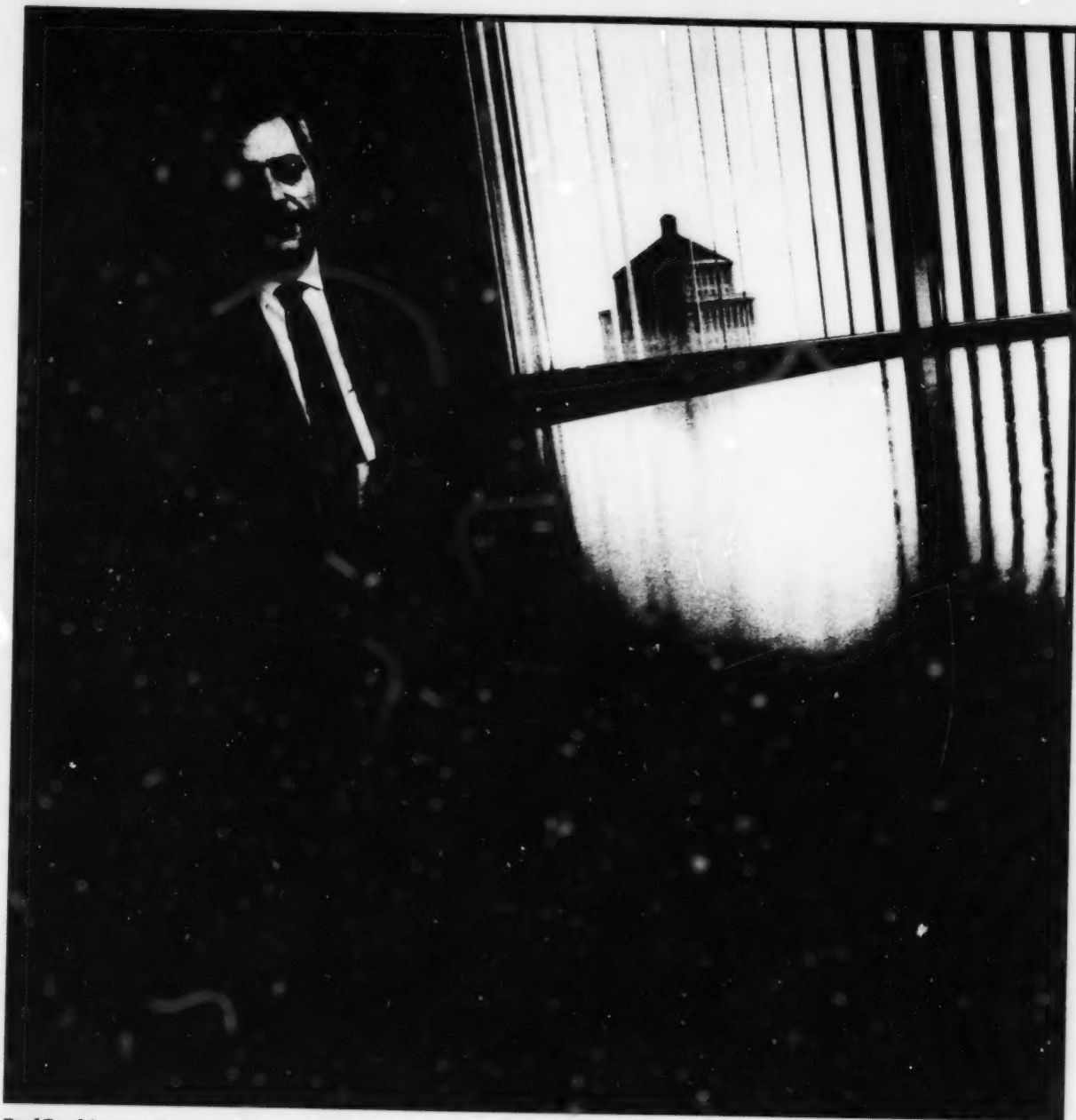


RETURN ON SHAREHOLDER'S EQUITY AFTER EXTRAORDINARY ITEMS



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Paul Berthiaume, Chairman of the Board, President and Chief Executive Officer

Report of the Chairman and Chief Executive Officer

In 1988, Société générale de financement du Québec, in keeping with its mission of industrial development, pursued the development of its subsidiaries and initiated major projects in the industrial sectors in which it operates.

Capital projects valued at more than \$600 million were launched in 1988. In addition, a \$200 million petrochemical project has been approved by the partners, subject to approval of financing terms by the federal and Québec governments. The various projects will be completed between 1989 and 1992. In addition to the temporary economic benefits of their construction phase, these projects will have a permanent impact on Québec's economic and industrial base. They are expected to create approximately 4,200 permanent jobs, directly and indirectly, and to generate some \$330 million annually in value added.

FINANCIAL RESULTS

In 1988, SGF had net earnings before extraordinary items of \$132.0 million, compared to \$51.7 million for the previous year. The record level of earnings was due mainly to the strong performances of Albecour and Éthylec. Another factor was the reorganization of MIL during the year, resulting in a substantial reduction of that company's losses.

After extraordinary items of \$15.0 million, net earnings were \$147.0 million. The extraordinary items consist essentially of net gains in connection with the disposal of subsidiaries.

The previous year's net earnings of \$194.0 million included an extraordinary gain of \$142.2 million, mainly from the sale of Dofor's interest in Donohue Inc.

Consolidated sales also grew strongly, from \$492.7 million in 1987 to \$570.2 million in 1988.

It was an especially good year for primary aluminum producers. Prices were buoyed by the continuing strength of world demand. Under these conditions, Albecour, a 24.95% partner in the Bécancour smelter, realized net earnings of \$64.3 million for the year compared to \$23.2 million for the previous year. Albecour sales were \$162.1 million in 1988 compared to \$110.9 million in 1987.

Favorable conditions in the world ethylene market, following the modernization of Pétromont plants in recent years, resulted in net earnings of \$47.2 million for Éthylec, which owns 50% of Pétromont. Net earnings for the previous

year were \$8.4 million. Sales were \$162.8 million in 1988 compared to \$118.3 million in 1987.

Domtar's results were negatively affected by weaker prices for gypsum board, by the strengthening of the Canadian dollar in 1988 and by a three-and-a-half-month strike at the Lebel-sur-Quévillon pulp mill. Net earnings were \$111 million compared to \$161 million in 1987. Despite these adverse factors, sales remained at virtually the same level, \$2.7 billion compared to \$2.6 billion in 1987.

Le Groupe MIL's orderly integration of the operations acquired from Versatile Corporation, combined with cutbacks in less profitable operations and the sale of Foresteel and Sométal, resulted in a reduction of MIL's losses from \$48.6 million in 1987 to \$18.2 million in 1988. The company had sales of \$240.8 million in 1988, slightly lower than in the previous year.

CURRENT CAPITAL PROJECTS

In early December of 1988, the four owners of the Bécancour smelter – Pechiney, Reynolds, Alumax and SGF's subsidiary Albecour – authorized the construction of a third potline. This project will increase the smelter's capacity from 240,000 to 360,000 tonnes annually and will bring significant economies of scale. The four partners will invest a total of \$550 million in this major addition of capacity.

Pétromont's efforts have in recent years focused primarily on the implementation of a plan for restructuring and modernizing its facilities at Varennes and Montréal-Est. These efforts bore fruit in 1988 in the form of an impressive turnaround in the company's financial position. Pétromont is now preparing further major expansion projects that will add substantial new polyethylene capacity and increase the productivity of its plants.

Also during the year, Pétromont increased its interest in the Soligaz consortium to 31.5%. SGF supports this project as an initiative that would enable Pétromont to procure feedstocks at more competitive prices from Western Canada and the international market, facilitating expansion of the Varennes plant.

Domtar has in recent years been pursuing an aggressive capital program aimed at reinforcing its position in the industries in which it operates. In 1988 the company invested \$407 million in its existing operations; \$242 million of this total

went toward the modernization of the fine papers mill at Windsor, Québec.

An important step forward for the Québec auto parts industry was taken on March 8, 1989, when SGF and Magna International Inc. announced the formation of a venture to build a wood-fibre mat plant supplying the auto industry and other customers. SGF's aim in entering this business is to develop world-class Québec suppliers capable of taking a larger share of the North American market for auto parts and accessories.

PROJECTS UNDER STUDY

Drawing on its extensive experience in the assembly of large projects, SGF is now working actively for the construction of a new world-scale aluminum smelter in Québec. A consortium of SGF and foreign partners has been formed and preparatory work on the site, at Sept-Îles, is scheduled to begin in the early summer of 1989. This \$1.7 billion investment would create direct employment for 800 people as well as the equivalent of 1,500 jobs during the three years of construction.

Other projects, in petrochemicals and aluminum as well as in the newer SGF sectors of auto manufacturing and metals and minerals, are in various stages of development.

OTHER HIGHLIGHTS

On June 1, 1988, SGF announced the sale of its subsidiary Industries Tanguay Inc. to a Québec company owned equally by a subsidiary of Groupe Canam-Manac and a Montréal investor.

On August 11, SGF announced the sale of its subsidiary Bio-Méga Inc. to Boehringer Ingelheim (Canada) Ltd., a subsidiary of the

multinational pharmaceutical firm of the same name.

The divestment of these two subsidiaries was consistent with SGF's strategic directions. Moreover, the new owners are in a position to provide the two companies with the means for continued dynamic development.

DEVELOPMENT OUTLOOK

During 1988 SGF carried out an in-depth review of its corporate strategy. This process, prompted by a new vision of its commitment, involved all of the company's management and professional personnel. The resulting strategy requires a continuing alertness on the part of all team members to ensure that our actions are consistent with the real pace of change in our business environment.

Accordingly, in a context of freer trade between Canada and the United States, SGF will capitalize on Québec's natural advantages, its proximity to a market of more than 100 million people and SGF's expertise in the assembly of projects to form partnerships with industry-leading foreign enterprises.

SGF seeks to realize Québec's full potential for downstream development in aluminum, transportation equipment, petrochemicals and other metals and minerals. In addition, the company will study the possibility of including two new high-technology fields in its priority businesses.

To prospective partners, SGF offers assets that contribute in specific ways to the success of the projects it undertakes. Among these assets are credibility, stability, expertise, the resources of a large business enterprise and, in particular, the substantial funding

that SGF is determined to commit to profitable, strategic ventures that further its mission.

BOARD OF DIRECTORS

At its meeting of May 27, 1988, the Board of Directors accepted the resignation of Mr. Yvon Marcoux as Director, Chairman of the Board, President and Chief Executive Officer of the company. Mr. Marcoux fulfilled these responsibilities with dedication and competence from the time of his appointment in October 1986.

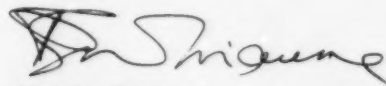
Mr. Henri A. Roy was appointed to the Board on November 3, succeeding Mr. Richard Drouin, who has assumed senior responsibilities at Hydro-Québec.

The Board wishes Messrs. Marcoux and Drouin every success in their new endeavors.

HUMAN RESOURCES

As the accomplishments of the past few years demonstrate, the expertise and entrepreneurial spirit of SGF's people are key factors in its success. The recent redefinition of the company's mission has given fresh stimulus to the motivation and commitment of our personnel. All management personnel, professional staff and administrative employees of SGF and its subsidiaries understand what is at stake in the company's objectives, and are working enthusiastically to advance the industrial development of Québec. Speaking for myself personally as well as for the Board, I would like to express my appreciation for their ability and for the pride they take in a job well done.

On behalf of the Board,



Paul Berthiaume
Chairman of the Board and Chief Executive Officer
Montréal, March 30, 1989.

Investments

As at December 31, 1988

ALUMINUM

Albecour,
société en commandite

100% Société générale de financement du
Québec

Aluminerie
de Bécancour Inc.

24.95% Albecour, société en commandite

24.95% Alumax Québec Inc.

50.1% Pechiney Reynolds Québec Inc.

PETROCHEMICALS

Éthylec Inc.

100% Société générale de financement du
Québec

Pétromont,
société en commandite

50% Éthylec Inc.

50% Union Carbide Canada Limited

Alcools
de Commerce Enrg.

50% Éthylec Inc.

50% Union Carbide Canada Limited

**SHIPBUILDING AND ENERGY-
RELATED EQUIPMENT**

FOREST PRODUCTS

Le Groupe MIL Inc.

[REDACTED]
65% Société générale de financement
du Québec

[REDACTED]
35% Alsthom

Dofor Inc.

[REDACTED]
100% Société générale de financement
du Québec

Domtar Inc.

[REDACTED]
27.8% Dofor Inc.

[REDACTED]
16.4% Caisse de dépôt et placement
du Québec

[REDACTED]
55.4% Others

NOTE: SGF holds also the following interests:

Novacap Investments Inc.	15.7%
Cegelec Industrie Inc.	10%
Cegelec Entreprises Inc.	7%

**Pipeline
Shawinigan Enrg.**

[REDACTED]
50% Éthylec Inc.

[REDACTED]
50% Union Carbide Canada Limited

Aluminum

In 1983, SGF identified aluminum smelting as one of its priority sectors for the industrial development of Québec. Albecour, société en commandite is a wholly-owned SGF subsidiary holding 24.95% of an undivided partnership in a state-of-the-art aluminum smelter at Bécancour. The other owners of Bécancour are Alumax of the United States, with 24.95%, and Pechiney of France and Reynolds Metals Company of the U.S., which jointly and equally hold a 50.1% share.

Each member of the partnership is separately responsible for procuring its share of alumina (the raw material for aluminum production) and selling its share of the output. The sustained efforts of Bécancour employees throughout 1988 allowed the smelter to operate at full capacity, producing more than 240,000 tonnes of aluminum.

Albecour sold its full quota of Bécancour's production in 1988 on the Canadian, U.S. and European markets. Substantial added value was realized through optimal use of Bécancour foundry facilities to produce and sell extrusion billets, sheet and remelt ingot.

OPERATING RESULTS

1988 was a particularly good year for producers of primary aluminum. In the first half of the year prices rose substantially, from 80 cents US per pound in January to \$1.30 per pound in June.

Worldwide demand remained strong and it was only in the last quarter of the year that the upward pressure on prices slackened somewhat. At the end of December, North American spot prices were in the neighborhood of \$1.10 US per pound.

Supply of the metal in the West increased by 8% over 1987, reach-

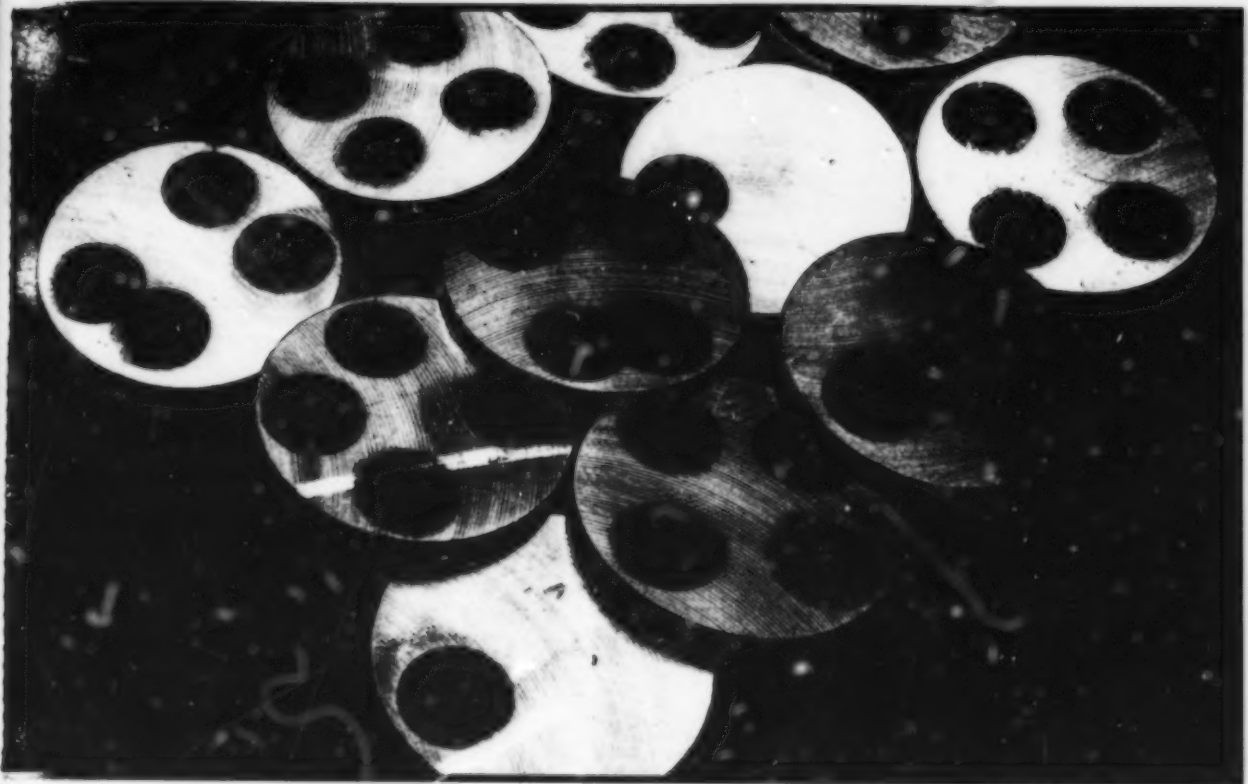
ing a record 14.2 million tonnes but exceeding demand by only 100,000 tonnes. Demand increased 3.1%, buoyed by very strong consumption of canning sheet.

Primary aluminum inventories were approximately 1.57 million tonnes at year end compared to 1.48 million tonnes a year earlier. In June inventories reached a low of 1.42 million tonnes, the equivalent of five weeks' consumption. Two years ago, 10 to 12 weeks was considered normal.

Under these exceptionally favorable conditions, Albecour had net earnings of \$64.3 million in 1988 compared to \$23.2 million in 1987. Sales were \$162.1 million compared to \$110.9 million the previous year.

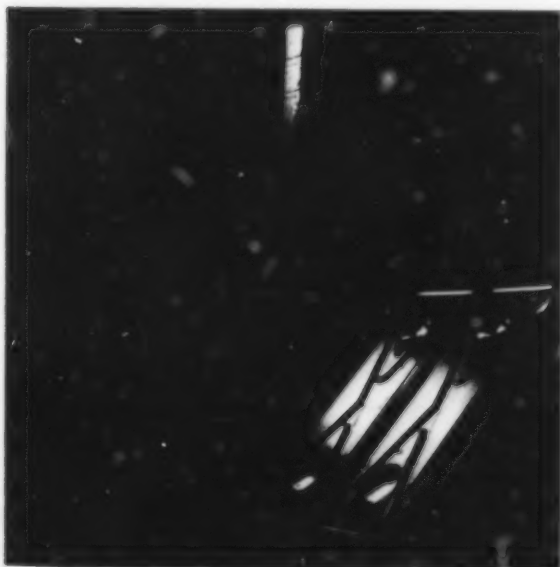
The outlook for 1989 is slightly less favorable than for 1988. Growth in demand is expected to slow somewhat as a result of a slower global economy. Also, last year's very high price levels could





result in increased substitution of competing products for aluminum, especially in the construction industry.

Supply will increase in 1989 as new pots come on stream in Venezuela and India. Capacity utilization is expected to exceed 97%, an extremely high level that is difficult to sustain over the long term.



HIGHLIGHTS

On December 1, 1988, the four owners of the Bécancour smelter authorized construction of a third potline. This will increase annual production capacity from 240,000 to 360,000 tonnes.

Engineering studies have been completed and construction is now under way; the first of the new pots is scheduled to be powered up on January 15, 1991. The added capacity will yield economies of scale in terms of both operating costs and average capital cost per installed tonne of capacity. The four partners will invest a total of \$550 million in the project.

Also on December 1, the Bécancour owners announced the signing of a new agreement with Hydro-Québec for supply of the 600 megawatts of power required to sustain aluminum production at a rate of 360,000 tonnes annually. The new contract covers a period of 26 years beginning January 1, 1989 and incorporates an innovative pricing formula in which the rate varies directly with the price of primary aluminum.

In other developments during the year, SGF established an international consortium to study the feasibility of building a new aluminum smelter in Québec. The consortium has commissioned numerous detailed studies to support a final decision in the first half of 1989. Known as Alouette, the new smelter would be located at Sept-Îles and in the initial phase would produce 278,000 tonnes of primary aluminum annually. Start-up is projected for the beginning of 1992. As with Bécancour, SGF would take a strategically important minority interest.

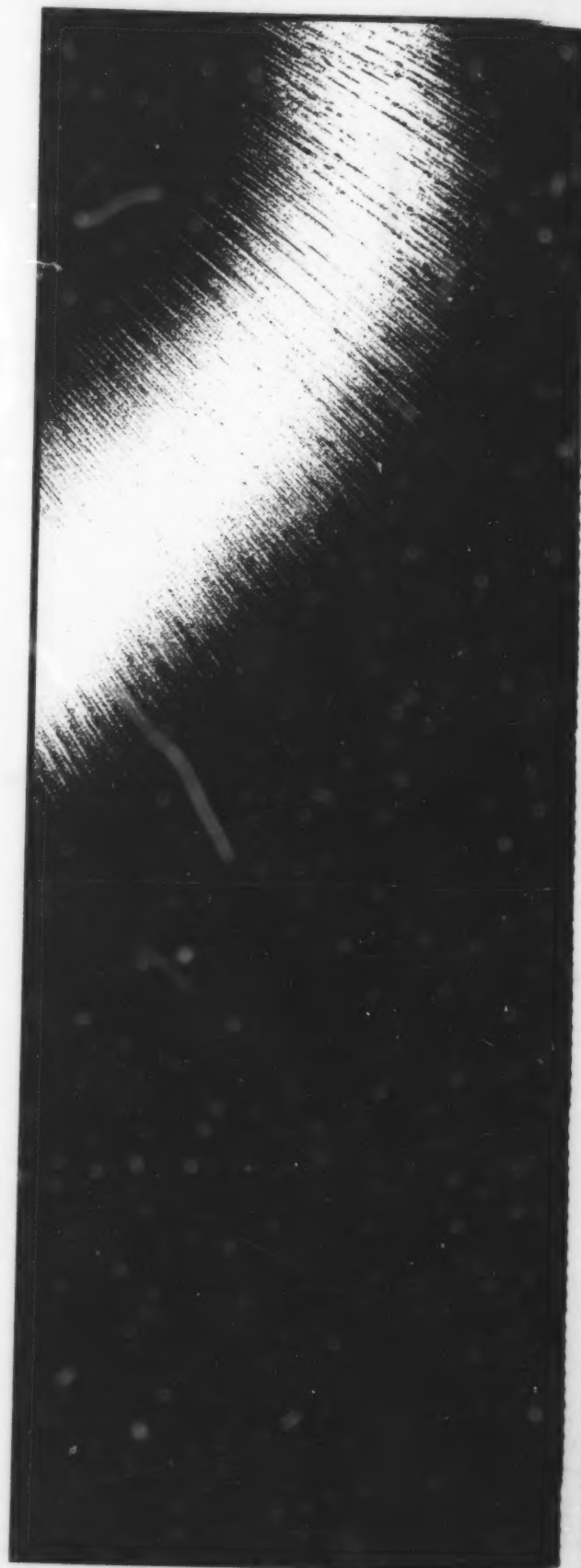
In 1989, SGF will continue to promote projects for development of industries downstream from primary aluminum smelting. With the aim of augmenting value added and diversifying its revenue base in the aluminum industry, SGF seeks to develop, in concert with partners, capital projects that take advantage of Québec's resources and generate substantial economic activity in Québec.

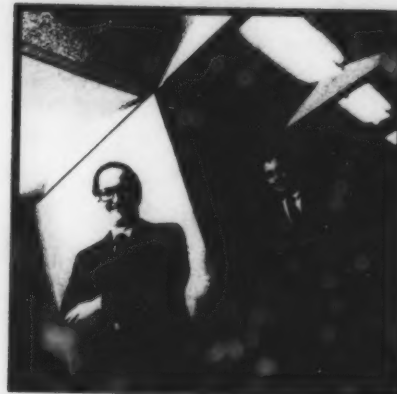
1
Among the techniques used by ABI's laboratory to ensure compliance with customer specifications is elemental analysis by optical emission spectroscopy, used to verify the degree of purity of primary aluminum and casting alloys.

2
A third potline is now under construction at the Bécancour smelter. By 1991, Bécancour will be producing 360,000 tonnes of primary aluminum annually, using safe and highly efficient technology.

3
At Bécancour's casting facilities, molten aluminum is cast into homogenized billets for extrusion into various structural shapes. Albecour also markets rolling slabs for sheet and foil and T-ingots for specialty alloys.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC





Left to right:
Manley S. Schultz
Vice-President, Aluminum
Martin J. Desmeules
Director, Aluminum

Petrochemicals

SGF is engaged in the petrochemical industry through its wholly-owned subsidiary Éthylec Inc. Éthylec is an equal partner with Union Carbide Canada Limited in three companies:

- Pétromont, société en commandite
- Alcools de Commerce Enrg.
- Pipeline Shawinigan Enrg.

Pétromont operates an olefin plant at Varennes with an annual capacity of 225,000 tonnes of ethylene and 360,000 tonnes of co-products, mainly propylene and aromatics. In addition, Pétromont operates a polyethylene plant leased from Union Carbide Canada with an annual capacity of 150,000 tonnes of low-density polyethylene.

Alcools de Commerce Enrg. operates an ethanol plant at Varennes with an annual capacity of 70 million litres.

Pipeline Shawinigan Enrg. operates a pipeline system linking the Montréal-Est and Varennes facilities.

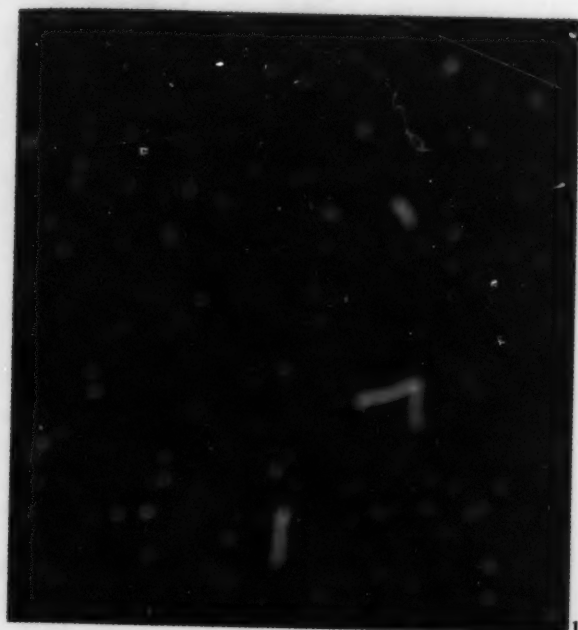
OPERATING RESULTS

In recent years the petrochemical industry has undergone a major restructuring process in North America, in Europe and throughout the world. The origins of this process can be found in factors including the oil crises, the recession of the early 1980s and the general trend of petrochemical companies to specialize in a particular industry segment rather than cover the full spectrum.

Conditions in the ethylene market have improved substantially since 1986. Global ethylene surpluses have decreased considerably and prices are notably firmer.

A reorganized and modernized





Pétromont took advantage of these conditions to achieve exceptionally good results in 1988. As a result of this performance and those of Alcools de Commerce and Pipeline Shawinigan, Éthylec had net earnings of \$47.2 million on revenues of

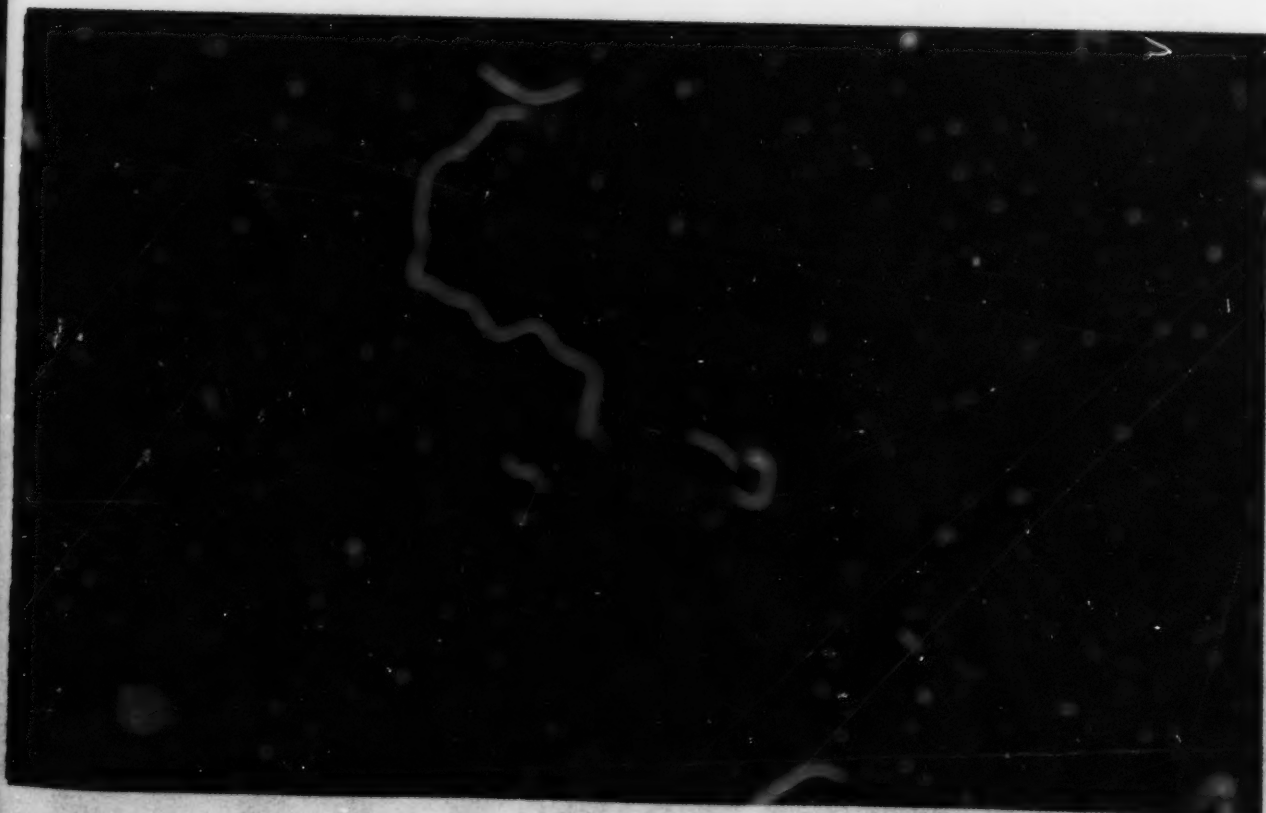
\$162.8 million in 1988, compared to net earnings of \$8.4 million on revenues of \$118.3 million in 1987.

HIGHLIGHTS

In 1988, SGF redefined its position in the petrochemical industry to take account of new factors including the Canada-U.S. free trade agreement. Through Pétromont's strategic position as major user of refinery products, supplier of basic petrochemicals to Montréal industries and producer of polyethylene, SGF plays a determining role in the Québec petrochemical industry.

SGF has a twofold aim in this sector. First, it seeks to protect its existing investments and maximize the development potential of its companies. Second, it seeks to optimize the use of feedstocks from related refining and petrochemical industries to supply new ventures.

With these aims in mind, Pétromont increased its interest in the Soligaz consortium to 31.5% in 1988. SGF supports this project as an initiative that would enable Pétromont to procure raw materials at more favorable prices from Western



Canada and the international market.

The Soligaz project would enhance the security of Pétromont's propane and butane supply and facilitate the long-term growth of the company's business. It would also support a substantial increase in Pétromont's ethylene production capacity.

In another initiative, Pétromont has plans in the short term to add capacity at the Varennes plant in order to meet additional demand for ethylene in the Montréal area. This project includes adding a new steam-cracking furnace to the five existing high-capacity furnaces, improving flexibility in production levels of ethylene co-products and increasing the available storage capacity.

This group of projects would increase the ethylene production capacity of the Varennes facility from 225,000 tonnes in 1989 to 265,000 tonnes in 1991.

At the Montréal-Est polyethylene plant, Pétromont is preparing to install a new Unipol reactor that will add 195,000 tonnes of capacity in high-density polyethylene, a new product category.

To produce ethanol, Alcools de Commerce uses ethylene supplied by Pétromont. Alcools de Commerce is now preparing to modify its Varennes facility to use imported crude alcohol, as an alternative feedstock. This investment will increase Alcools de Commerce's flexibility in choice of raw materials and will release ethylene to feed the new polyethylene capacity.

These three projects – polyethylene development, expansion of Varennes olefins capacity and use of crude alcohol as feedstock – fit well with SGF's long-term strategies. The polyethylene capacity will ensure the survival and stability of the Montréal-Est petrochemical complex and will consolidate Pétromont's position in the industry. In the medium term, the Soligaz project and the increased ethylene capacity at Varennes will mean that SGF can consider expanding the Montréal petrochemical centre and developing new industries downstream.

1

Gas-insulated cables at Pétromont's Varennes plant carry electricity at 230,000 kilovolts. Two variable-speed electric motors of 20,000 hp each have replaced steam turbines at this facility.

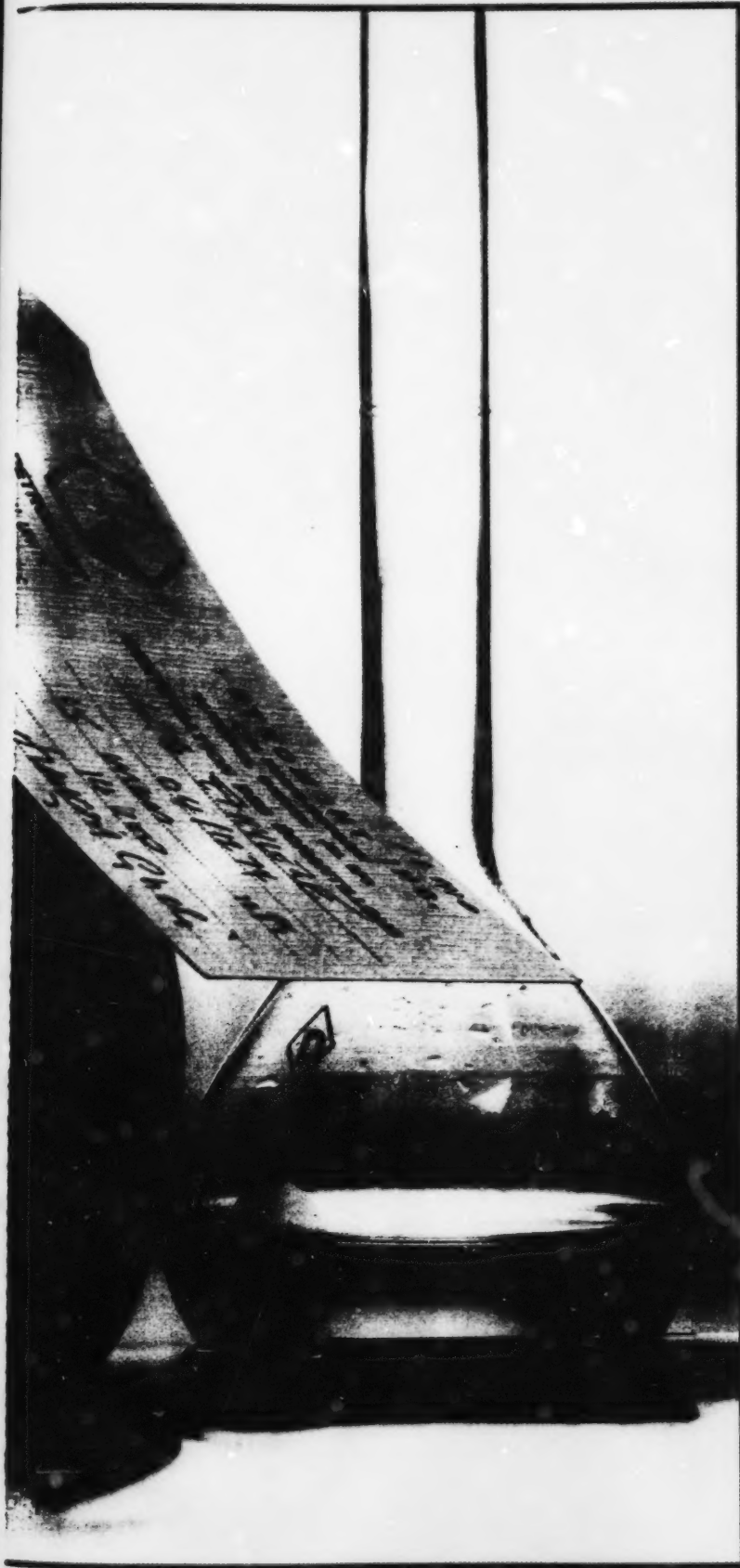
2

The computerization of process-control systems has resulted in higher production levels and greater value added at Pétromont plants.

3

The quality of Pétromont products – ethylene, propylene and a number of major by-products – is tested constantly in the laboratory.





Left to right:

Patrick G. Hiron

Director, Petrochemicals

Louis-M. Riopel

Vice-President, Corporate Development

Jacques Mallette

Controller

Forest Products

Domtar Inc., in which SGF has a 27.8% interest through its wholly-owned subsidiary Dofo Inc., is one of Canada's largest manufacturing companies based on natural resources. Domtar's broad range of products is divided among four operating groups: pulp and paper, packaging, construction materials and chemicals.

Domtar is the leading Canadian producer of uncoated fine papers, producing more than 500 grades of paper of widely varying characteristics. The company operates five fine-paper mills, including two high-productivity facilities at Windsor, Québec, and Cornwall, Ontario.

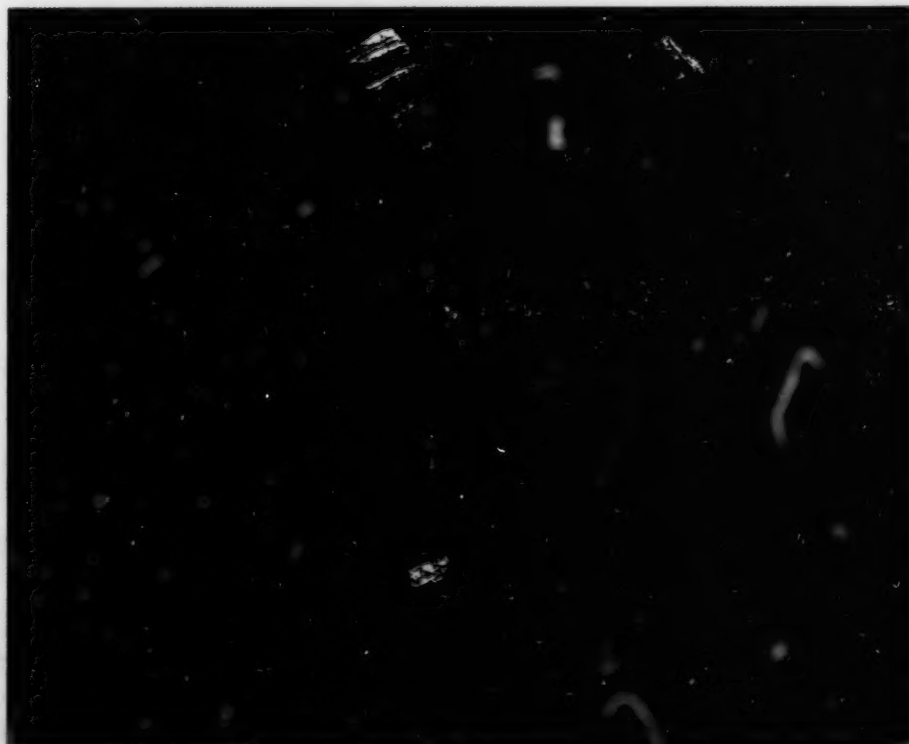
The North American newsprint market is served by three mills at Red Rock, Ontario, and Donnacona and Dolbeau, Québec. A pulp mill at Lebel-sur-Quévillon, Québec, supplies high-quality kraft pulp to the paper mills of Domtar and other customers. Modern saw-mills provide these facilities with a

secure supply of wood chips.

Domtar is the largest Canadian manufacturer of containerboard and holds a 51% interest in Domtar Sonoco Containers Inc., the largest Canadian manufacturer of composite boxes. Domtar also makes a wide range of building materials including gypsum board, roofing products, insulation and melamine-surfaced particleboard. The chemicals group produces salt, coal tar, surfactants and treated lumber products. Domtar also recycles paper and plans to innovate further by engaging in the recycling of plastics.

OPERATING RESULTS

Favorable business conditions in packaging and pulp and paper during the year were offset by lower prices for gypsum board, the strengthening of the Canadian dollar and a three-and-a-half-month



strike at the Lebel-sur-Quévillon pulp mill, which had a negative impact on the start-up of the renovated Windsor complex and on other fine-paper operations.

Domtar's financial results were adversely affected by these developments. Net earnings declined to \$111 million or \$1.15 per common share from the previous year's \$161 million or \$1.73 per common share. Sales were \$2.7 billion in 1988, a slight increase over the 1987 level of \$2.6 billion.

Dofor had earnings before extraordinary items of \$36.1 million compared to \$53.7 million in 1987.

HIGHLIGHTS

During 1988 Domtar pursued a dynamic investment program aimed at reinforcing its presence in selected sectors and improving its cost competitiveness. The principal measures taken to implement the company's core business strategies included:

- Continued modernization of the Windsor fine-papers mill.



2

- Construction of a gypsum board plant in New Hampshire at a cost of \$35 million US.
- Expansion of the melamine board plant at Huntsville, Ontario, at a cost of \$65 million.
- Acquisition of a sawmill at Matagami, Québec.
- Modernization of the Red Rock newsprint facilities at a cost of \$30 million.
- Disinvestment from Arborite high-pressure laminates.

As a result of productivity improvements in the pulp section and in the first paper machine, the Windsor project has begun contributing to operating profits. With the scheduled start-up of the second paper machine in 1989, Domtar's total annual capacity in fine papers will reach 740,000 tonnes in 1990.

The company has also invested substantially in gypsum-board production. Recent acquisitions have made it possible to pursue opportunities in all North American regional markets and are being supported by investments aimed at securing dominance with respect to production costs.



1

Domtar has undertaken a number of other strategic initiatives over the last five years. The company purchased two sawmills to increase the security of its wood-fibre supply, two specialty chemical companies, a low-pressure laminates plant and a specialty packaging company. It has also acquired shares in joint ventures for specialty roofing products, coal tar, and preprinted cover paper, and plans to enter into a similar partnership in plastics recycling. Finally, as part of its program of concentration in selected businesses, Domtar divested its operations in envelopes, lime and masonry products.

The slowing of growth in North America and the detrimental effect of the stronger Canadian dollar will pose a challenge for Domtar in 1989. It is anticipated that total earnings will increase over 1988, but the performance of the operating groups will vary according to the particular conditions of each industry.

Because of its strong business position and cost competitiveness, the company would benefit from any cyclical recovery in the gypsum-board industry after 1989. In addition, the effect of the Windsor modernization program will not be fully reflected until after 1989. In terms of strategy, the company is committed to providing the necessary resources for reinforcement of its core businesses and to pursuing investment opportunities in selected areas of high-growth potential. It is anticipated that these investments will enable Domtar to attain its longer term financial objectives.

1
Domtar manages its woodland resources to ensure a reliable supply of chips for its pulp and paper mills.

2
Commercial operation of the first machine at the Windsor fine papers complex began in July 1988. The second machine will come on stream in 1989. These high-speed rolls, 296 inches wide, will produce 350,000 tonnes of paper annually.

3
Domtar, Canada's leading producer of uncoated fine papers, manufactures and markets more than 500 grades of paper in a variety of finishes, colors, weights and sizes.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC





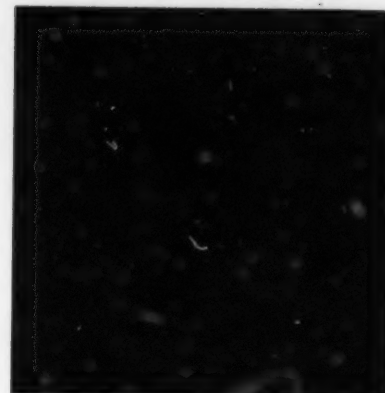
Clockwise from bottom:
Louis-Gilles Gagnon
Vice-President, General Counsel and Secretary
François Ghali
Director, Communications
Roxane Marcil
Assistant to the President

Shipbuilding and Energy-Related Equipment

Le Groupe MIL is a large industrial complex manufacturing a variety of heavy-industrial and high-precision products. It is owned 65% by SGF and 35% by Alsthom of France. Following the acquisition of the Eastern Canadian facilities of Versatile Corporation, MIL has reorganized its operations and now has five divisions. Shipbuilding and ship repair operations are consolidated at the MIL Davie yard at Lauzon; MIL Tracy, near Sorel, specializes in the construction of hydroelectric equipment and preassembled modules for shipbuilding; MIL Systems Engineering, based in Ottawa, Montréal and Halifax, remains a world leader in the design and engineering of naval systems; MIL Vickers is now engaged in the manufacture of precision components for the shipbuilding industry – a field in which it has earned worldwide recognition. A fifth division, MIL Offshore, was recently created to capitalize on the future development of the oil and gas industry and on the capabilities of other divisions in this promising area.

OPERATING RESULTS

The concentration of each division in its areas of strength has made possible an orderly integration of the operations acquired from Versatile in 1987. The reorganization, combined with a major retrenchment of less profitable operations and the sale of Foresteel and Sométal, reduced



the company's losses from \$48.6 million in 1987 to \$18.2 million in 1988.

Revenues were virtually the same as the previous year, \$240.8 million in 1988 compared to \$241.1 million in 1987.



HIGHLIGHTS

To better reflect the variety of markets served by the company, Marine Industrie Limitée officially became Le Groupe MIL Inc. in 1988.

There were a number of notable achievements during the year. MIL Davie at Lauzon pursued the simultaneous execution of three large projects – construction of a 1,200-passenger, 350-car ferry for Marine Atlantic, modernization of two DDH 280 destroyers for Litton Systems Canada Ltd. and construction of three Canadian patrol frigates for Saint John Shipbuilding Ltd. These projects together amount to a convincing demonstration of the company's ability to meet the most exacting standards. MIL Davie also continued to meet the needs of shipowners worldwide through speedy and effective ship-repair and overhaul services.

MIL Tracy continues to build modules for the patrol frigates assembled by MIL Davie. This division is also very active in the international market

for hydroelectric equipment. A Canadian consortium led by MIL Tracy won a \$125 million contract from China for turbines, alternators and governors for the Geheyan development on a tributary of the Yangtze. MIL Tracy is in a very good position to supply energy production equipment to other large projects including the expansion of James Bay capacity, and is pursuing its activities in Manitoba and the United States. A research contract awarded to MIL Tracy for development of new welding techniques, in connection with the Canadian submarine acquisition program, is a reflection of the company's technical expertise.

In April, MIL Vickers delivered another Candu nuclear reactor to Ontario Hydro for the latter's Darlington station. This division also began the reconditioning of 170 M-113 armored troop-transport vehicles for the Canadian army. This assignment is especially important because it paves the way for further defence-related business for MIL Vickers; together with contracts



for the manufacture of nuclear submarine components for the U.S. Navy and other NATO countries, it testifies to the expertise of MIL Vickers in this area. The division is well-positioned to play an important role in Canadian defence modernization programs.

MIL Systems Engineering successfully continued work on its contract with Litton Systems Canada Ltd. for design, equipment supply and engineering work related to modernization of the destroyers now being rebuilt in the MIL Davie shipyard. In other important developments for MIL Systems Engineering during the year, a technology transfer agreement was signed with Groupe SEMA and Groupe CGE Alsthom, of France, and a new business office was opened in British Columbia.

M&M Manufacturing of Dartmouth, Nova Scotia, in which MIL has a 49% interest, continued its diversification. It has added petrochemicals and energy production to its existing gas and oil operations. This company returned to profitability at the beginning of 1988.

With major changes in management, in labor relations, in organizational structure and in the pursuit of new markets, MIL is now managed according to well-defined objectives based on criteria of profitability, stability and growth. These efforts are expected to lead to an improved financial performance in 1989.

1.2

Highly skilled workers use a variety of cutting heads on computerized machine tools to manufacture large-scale industrial equipment requiring extremely precise tolerances.

3

Steel is the most-used raw material of MIL yards and shops. Advanced techniques are used to shape, bend, cut, thread, tap, draw, press and shear the hardest steel.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC





Left to right:
Claude H lie
Vice-President, Finance and Treasurer

Michel R. B land
Legal Counsel and Assistant Secretary

Richard Fredette
Director, Planning

New Sectors

TRANSPORTATION EQUIPMENT

• *Automotive Industry*

The restructuring of the automotive industry provides Québec with an attractive opportunity to manufacture automotive parts and accessories. This industry is expanding in Québec with recent investments by major automakers.

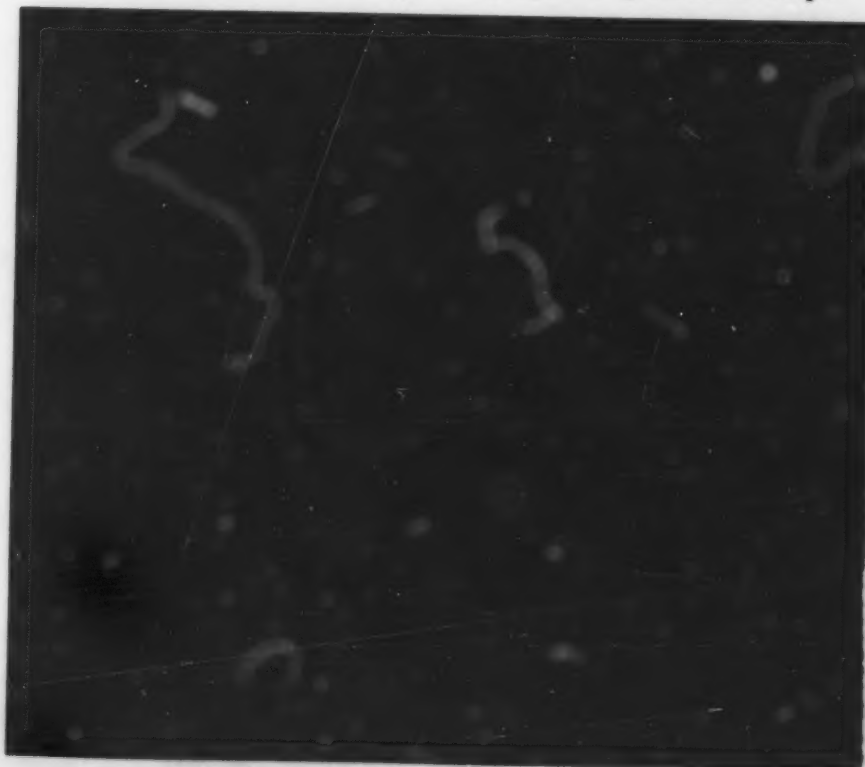
SGF's presence in the automotive industry derives from a two-fold concern. First, SGF intends to leverage its interests in the production of materials such as aluminum and polyethylene to promote downstream processing in Québec. Second, it intends to promote the development in Québec of world-class suppliers capable of taking a greater share of the North American automotive parts and accessories market.

In pursuit of these objectives, SGF seeks to attract successful high-technology manufacturers as partners for ventures in Québec. SGF offers assistance in assembling

the investment projects, an equity contribution and, in some instances, a stable supply of raw materials.

SGF is also interested in arrangements, ranging from strategic alliances to equity interests or acquisitions, with existing North American companies successful in this industry.

Over the last two years, a proactive development approach has enabled SGF to evaluate a number of capital projects in automotive parts and accessories. These projects are based on partnership with successful companies making high-technology products or using advanced technologies and having direct links with automakers. On March 8, 1989, SGF announced the formation of a venture with Magna International Inc. to build a wood-fibre mat plant. The wood-fibre mat produced by the plant will be used in the molding of instrument panels, door panelling and other compo-





nents for automotive interiors. These panels are presently molded by Ligma Corporation, located at Nashville, Illinois, a company owned by SGF and Magna. SGF and Magna have also formed a strategic alliance for other automotive-industry projects in Québec.

More specifically, SGF is targeting projects for utilization of light materials such as aluminum,

magnesium, plastics and composites. Other automotive-parts projects, not necessarily having a direct link to existing SGF sectors, are also contemplated.

• *Aerospace Industry*

The Montréal region is the centre of the Canadian aerospace industry, whose development in Québec will be further promoted by the establishment of the Canadian space agency. Aerospace manufacturing is a logical extension of SGF's interest in transportation equipment. There is a substantial base of established aerospace companies in Québec. During 1989, SGF will undertake a detailed study of this rapidly growing sector, accompanied by direct approaches to successful aerospace firms with the aim of identifying opportunities for capital investment projects.

METALS AND MINERALS

The metals and minerals sector encompasses a number of industries including primary metals, nonmetallic minerals, various chemicals and composite materials. These industries typically use electrolytic and electrothermal processes requiring a reliable and economical supply of electric power.

The projects pursued by SGF would be linchpins of horizontal or vertical development. On one hand, various types of expertise in processes or related markets can be developed, applied to related areas and used to promote horizontal development, for instance in the development of ferroalloys, light metals and composites. On the other hand, the development of a specific project can pursue vertical integration in a manner consistent with SGF's objectives for other sectors. For example, aluminum and magnesium alloys, stainless steel, titanium and composites are used in the manufacture of transportation equipment.



SGF's involvement in metals and minerals is based largely on the Government of Québec's policy of promoting the development in Québec of industries requiring large quantities of electric power. This policy is supported by attractive pricing by Hydro-Québec, which offers electricity-intensive industries rates that are among the world's most competitive and a rate structure based on risk sharing.

In addition to the hydroelectric power advantage, Québec has a number of strategic assets favoring projects in the metal and mineral industries. Among these are geographic location, sites serviced by the supporting infrastructure required by heavy industry, easy accessibility of raw materials, the availability of skilled labor and an economic environment fostering downstream integration of primary processing industries.

Undercapacity situations were frequent in 1988, sending prices of several metal and mineral commodities to unprecedented levels. Capacity expansion can therefore be expected over the next few years in a number of basic industries, especially following the recent significant improvements in corporate finances. A number of opportunities are expected to emerge in the near future for the employment of capital in metals and minerals. The critical success factors will turn on natural advantages and technologies determining the international competitiveness of each project.

In conjunction with partners, SGF is presently pursuing the assembly of capital projects in ferroalloys and glass products. Projects in electrochemicals and composite materials are also under study.

1,2,3

Wood-fibre moldings are used in European prestige automobiles. An SGF investment is bringing to North America the technology most highly regarded by automakers.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC



Clockwise from bottom:

Guy Oulmet

Associate Vice-President, Metals and Minerals

Bernard Hamel

Director, Transportation Equipment

François R. Roy

Director, Finance

Officers' Report

To the Shareholder
of Société générale de financement
du Québec

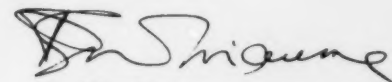
In the course of its activities, the board of directors of Société générale de financement du Québec has delegated to its officers the preparation of its consolidated financial statements.

These consolidated financial statements have been audited by an independent firm of auditors, Samson Bélair, before their presentation to the board of directors who approved them upon recommendation of the

duly constituted and appointed Audit Committee.

The management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to consolidated financial statements.

The information contained in this financial report complies with the consolidated financial statements included herein.



Paul Berthiaume
President and Chief Executive Officer

Montréal, March 30, 1989.

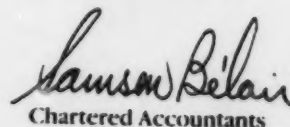
Auditors' Report

To the Shareholder of
Société générale de financement
du Québec

We have examined the consolidated balance sheet of Société générale de financement du Québec as at December 31, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we

considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Société générale de financement du Québec as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

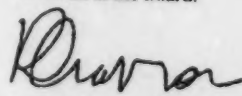
Montréal, February 17, 1989
(March 7, 1989 for Note 9)

Consolidated Balance Sheet

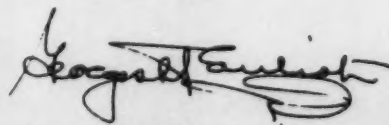
As at December 31
(thousands of dollars)

	1988	1987
Current assets		
Cash and temporary investments	\$ 214,335	\$ 173,292
Accounts receivable	141,048	121,858
Inventories	35,199	41,198
Prepaid expenses	3,642	3,369
Current portion of long-term investments	4,105	2,875
	398,329	342,592
Long-term investments (Note 2)	413,938	398,234
Fixed assets, less depreciation of \$144,398,000 (\$137,888,000 in 1987)	343,486	356,160
Start-up costs, less amortization of \$16,648,000 (\$9,295,000 in 1987)	19,367	26,768
Holdbacks on contracts and other	11,180	16,651
	\$ 1,186,300	\$ 1,140,405
	1988	1987
Current liabilities		
Bank loans	\$ 1,049	\$ 41,997
Accounts payable and accrued liabilities	101,899	97,074
Progress billing, net of costs of contracts in progress	20,889	41,762
Current portion of long-term advances	7,500	12,500
Current portion of long-term debt	20,452	13,608
	151,789	206,941
Deferred foreign exchange gain	19,262	9,605
Long-term advances on contracts and deferred revenue	32,052	35,841
Long-term debt (Note 3)	167,172	212,500
Minority interest	20,788	5,770
Shareholder's equity		
Capital stock (Note 4)	347,500	347,500
Contributed surplus		2,510
Translation adjustment	(4,108)	(2,588)
Retained earnings	451,845	322,326
	795,237	669,748
	\$ 1,186,300	\$ 1,140,405

On behalf of the Board,



Robert Gratton, Director



Georges Pouliot, Director

Consolidated Statement of Earnings

Year ended December 31
(thousands of dollars)

	1988	1987
Sales	\$ 570,179	\$ 492,725
Earnings before the following items	\$ 129,564	\$ 32,082
Deduct		
Depreciation of fixed assets	22,784	20,172
Amortization of start-up costs	7,353	7,022
Other amortization	1,795	709
Interest and expenses on long-term debt	18,599	15,770
Interest and expenses on short-term debt	475	3,339
	51,006	47,012
Add		
Investment income	21,963	10,964
Share in earnings of a company subject to significant influence	26,767	44,670
	48,730	55,634
Earnings before income taxes, minority interest and extraordinary items	127,288	40,704
Income taxes	17	
Earnings before minority interest and extraordinary items	127,271	40,704
Minority interest	4,783	11,014
Earnings before extraordinary items	132,054	51,718
Extraordinary items (Note 5)	14,955	142,248
Net earnings	\$ 147,009	\$ 193,966

Consolidated Statement of Retained Earnings

Year ended December 31
(thousands of dollars)

	1988	1987
Balance at beginning	\$ 322,326	\$ 128,360
Net earnings	147,009	193,966
Transfer from contributed surplus	2,510	
	471,845	322,326
Dividends	20,000	
Balance at end	\$ 451,845	\$ 322,326

Consolidated Changes in Financial Position

Year ended December 31
(thousands of dollars)

	1988	1987
Operating activities		
Cash provided by operating activities, before extraordinary items (Note 6)	\$ 136,244	\$ 30,857
Changes in holdbacks on contracts and other	1,026	(10,107)
Changes in non-cash operating working capital items	(42,028)	27,649
	95,242	48,399
Financing activities		
Changes in long-term debt	(8,890)	87
Changes in long-term advances on contracts and deferred revenue	(8,796)	32,724
Increase in minority interest	20,500	13,451
Increase in recoverable tax benefit		(1,206)
Dividends paid	(20,000)	
	(17,186)	45,056
Investment activities		
Net changes in long-term investments	(4,203)	135,556
Net start-up costs	48	(6,256)
Net acquisition of fixed assets	(25,149)	(38,838)
Disposal of subsidiaries, net of bank loans	34,506	
Acquisition and investment sale costs		(4,640)
Costs related to rationalization and specialization of a subsidiary	(1,267)	(8,160)
	3,935	77,662
Changes in cash	81,991	171,117
Cash at beginning	131,295	(39,822)
Cash at end	\$ 213,286	\$ 131,295

Cash includes cash and temporary investments, net of bank loans.

Notes to Consolidated Financial Statements

Year ended December 31, 1988

1. Significant accounting policies

a) Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Companies included in the consolidation, with respective percentages of ownership, are as follows:

Percentage of ownership	1988	1987
Dofor Inc.	100.0	100.0
Ethylec Inc. (i)	100.0	100.0
Le Groupe MIL Inc. and its subsidiaries	65.0	65.0
Société générale d'aluminerie Inc. (ii)	100.0	100.0
Société québécoise d'aluminium Inc. and its subsidiary	100.0	100.0
Industries Tanguay Inc.		99.6
Bio-Méga Inc.		100.0

i) The accounts of this subsidiary represent the share of the Company in Pétrumont, société en commandite, Pétrumont Inc., Alcools de Commerce Enrg. and Pipeline Shawinigan Enrg., and are accounted for using the proportionate consolidation method.

ii) The accounts of this subsidiary represent the share of the Company in the Bécancour Aluminum Plant Project and in Aluminerie de Bécancour Inc. through Albecour, société en commandite.

The earnings of subsidiaries and affiliated companies are included in the consolidated financial statements as of their respective dates of acquisition and until their respective dates of disposition, if applicable.

b) Long-term investments

The investment in Domtar Inc., a company subject to significant influence, is accounted for using the equity method. All long-term investments in other companies are recorded at cost.

c) Inventories

Inventories are valued at the lower of average cost and net realizable value.

d) Fixed assets and depreciation

Fixed assets are recorded at cost, less all related grants. The Company provides for depreciation principally using the straight-line method based on the estimated useful lives of the assets.

e) Consolidated goodwill

Goodwill is amortized using the straight-line method over a period of forty years.

f) Start-up costs

Start-up costs include the excess of operating costs incurred during a smelter start-up stage over comparable operating costs during normal operation, plus financial expenses incurred during this same period. These costs are amortized using the straight-line method over a period of five years in proportion to the number of pots started up.

g) Income taxes

Earnings of SGF and of its wholly-owned subsidiaries are not subject to income tax. Companies subject to income tax follow the tax allocation method in providing for income taxes.

h) Translation of foreign currency

Monetary assets resulting from foreign currency transactions are translated into Canadian dollars using the year-end exchange rates. Sales, purchases and capital expenditures are translated throughout the year at the exchange rates prevailing at the transaction dates.

Exchange gains or losses arising on translation of long-term debt are deferred and amortized using the straight-line method over its remaining life.

Exchange gains or losses arising on translation of long-term debt were not amortized in past years since the Company was considering future foreign currency revenue streams as an effective hedge against exchange risk.

The translation adjustment shown in shareholder's equity includes the Company's share of the exchange gains or losses of the company subject to significant influence arising on translation of the accounts of self-sustaining foreign subsidiaries and of long-term debt components considered as a hedge against net investment in foreign subsidiaries.

i) Pension plans

Current service pension costs of defined benefits plans are included in the earnings for the year. The cost of past services and the actuarial surplus or deficit are amortized over the expected average remaining service life of the employee group which benefits from the plans.

2. Long-term investments

(thousands of dollars)	1988	1987
Domtar Inc., market value of \$351,219,000 (\$342,214,000 in 1987)*	\$ 360,988	\$ 348,357
Subordinated debentures, 6%, payable until 1997	22,500	25,000
Subordinated notes, at a maximum rate of 8½% until March 1993 and at prime rate thereafter, payable in 1998	20,000	20,000
Note, 8%, payable in two instalments in 1989 and 1990	2,500	
Other investments	12,055	7,752
	418,043	401,109
Current portion	4,105	2,875
	\$ 413,938	\$ 398,234

*The Company holds 27.82% (27.90% in 1987) of the voting shares of Domtar Inc. The carrying value of the investment in Domtar Inc. includes unamortized goodwill of \$35,397,000 (\$36,297,000 in 1987). The goodwill results from the excess of the cost of shares over the book value of the net assets of Domtar Inc. at acquisition date.

3. Long-term debt

(thousands of dollars)	1988	1987
Subsidiaries		
Bank loans, at prime rate or LIBOR rate plus $\frac{3}{4}$ of 1%, secured by the Province of Québec, payable in semi-annual instalments	\$ 168,827	\$ 194,698
Loan, at prime rate, secured by debentures issued under trust deeds which carry specific or floating charges on all assets of a subsidiary not specifically pledged, payable until 1997	8,105	9,010
Bonds, 11 $\frac{1}{4}$ %, secured under first trust deeds which carry specific or floating charges on all assets of a subsidiary not specifically pledged, maturing in 1991	4,220	5,460
Due to the federal government, which will amount to \$10,000,000 in 1989, without interest, payable as of 1991	3,333	3,333
Other	3,139	13,607
	187,624	226,108
Current portion	20,452	13,608
	\$ 167,172	\$ 212,500

Long-term debt includes \$141,550,000 (\$149,900,000 in 1987) in U.S. currency.

Under interest rate swap agreements, a subsidiary has determined fixed rates on a portion of long-term debt amounting to US\$70,000,000 at an average effective interest rate of 9.90% over an average of 2.3 years.

Capital payments due within each of the next five years are as follows:

	CA\$	US\$
1989	2,683,000	14,900,000
1990	2,802,000	14,900,000
1991	3,633,000	16,763,000
1992	2,117,000	18,625,000
1993	2,082,000	20,487,000

4. Capital stock

The Company's shares are owned by the Government of Québec.

(thousands of dollars)	1988	1987
Authorized shares, with a par value of \$10 each		
41,500,000 Common shares		
Issued and paid		
34,750,000 Common shares	\$ 347,500	\$ 347,500

5. Extraordinary items

(thousands of dollars)	1988	1987
Gain on disposal of long-term investments	\$ 16,222	\$ 154,682
Share in the expenses and loss expected on the closing, sale of divisions, rationalization and specialization of a subsidiary	(1,267)	(11,160)
Loss for devaluation of long-term investments		(1,274)
	\$ 14,955	\$ 142,248

6. Cash provided by operating activities

(thousands of dollars)	1988	1987
Earnings before extraordinary items	\$ 132,054	\$ 51,718
Items not affecting cash		
Depreciation of fixed assets	22,784	20,172
Amortization of start-up costs	7,353	7,022
Other amortization	1,795	709
Gain on disposal of fixed assets	(189)	(164)
Share in net earnings of a company subject to significant influence	(26,767)	(44,670)
Dividends from a company subject to significant influence	12,008	12,008
Minority interest	(5,466)	(17,024)
Write-off of long-term assets		1,086
Amortization of deferred foreign exchange gain	(7,328)	
	\$ 136,244	\$ 30,857

7. Commitments**Société générale d'aluminerie Inc.**

On December 1st, 1988, the owners of Aluminerie de Bécancour Inc. announced an investment of \$550,000,000 for the construction of a third potline at the Bécancour plant. The Company's share of this commitment amounts to \$137,225,000.

Pétromont, société en commandite

Pétromont, société en commandite, which is affiliated with Éthylec Inc., received financial assistance from the governments of Canada and Québec totalling \$50,000,000 for the years 1983 and 1984 as compensation for losses incurred during these two years. This financial assistance included clauses providing for reimbursement, depending on the profitability of the partnership, up to a maximum of \$10,000,000 per year. Reimbursement in the amount of \$10,000,000 has been accounted for during the year ended December 31, 1988. The share of this reimbursement in the financial statements of the Company amounts to \$5,000,000. Pétromont, société en commandite, is presently negotiating a postponement in the application of the reimbursement clauses.

Pursuant to an agreement ending December 31, 1989, Pétromont, société en commandite, received financial assistance from the Government of Québec in previous years to compensate Pétromont for certain operating losses and provide financing for certain capital projects. This agreement includes clauses for reimbursement of this financial assistance. During the year ended December 31, 1988, Pétromont, société en commandite, reimbursed an amount of \$2,977,000 (\$6,400,000 in 1987) to the Government of Québec. The share of this reimbursement in the financial statements of the Company amounts to \$1,488,000 (\$3,200,000 in 1987). The reimbursement to the Government of Québec will not exceed \$6,400,000 for the year ending December 31, 1989.

Donohue St-Félicien Inc.

Under the terms of an agreement signed in June 1977, the Company has agreed to lend the required funds to Donohue St-Félicien Inc. for the payment of interest and capital of first mortgage bonds issued by this Company at a par value of US\$100,000,000 and \$35,000,000, if these funds were unavailable through other means. As at December 31, 1988, the balances of these bonds were US\$52,650,000 and \$19,687,000 and the debtor foresees having sufficient funds for the yearly payment of capital and interest in July 1989.

The Province of Québec has secured the Company's commitment.

Leases

The significant operating leases under which the companies are committed for the next five years amount to \$12,249,000.

8. Pension plans

According to the last actuarial valuations, accrued pension benefits and accumulated assets of the various plans of subsidiaries of the Company are as follows:

(thousands of dollars)	Actuarial value of accrued pension benefit	Market value of assets available for pension benefit payment
Éthyléc Inc. (Company's share: 50%)	\$ 4,781	\$ 3,455
Le Groupe MIL Inc. and its subsidiaries	50,282	51,025
Société générale d'aluminerie Inc. (Company's share: 24.95%)	2,427	4,484

9. Subsequent event

Under the terms of an agreement dated March 7, 1989, a new wholly-owned subsidiary of the Company subscribed for 45% of the capital of Ligma Corporation and MFB Industries Enr., two companies operating mainly in the automobile parts industry, for \$23,175,000 paid cash. The agreement also provides for new subscriptions totalling US\$7,188,000 through 1992 to finance the construction of a wood-fibre mat plant in Québec.

10. Comparative figures

Certain figures from 1987 have been reclassified to conform with the financial statement presentation adopted for 1988.

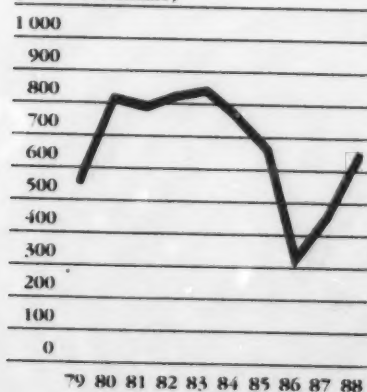
Ten-Year Statistical Review

Year ended December 31
(thousands of dollars)

	1988	1987
Operations		
Sales	\$ 570,179	\$ 492,725
Earnings before the following items	147,183	69,021
Depreciation of fixed assets	22,784	20,172
Interest	19,074	19,109
Income from investments	21,963	10,964
Income taxes	17	-
Earnings before minority interest and extraordinary items	127,271	40,704
Minority interest	4,783	11,014
Earnings before extraordinary items	132,054	51,718
Extraordinary items	14,955	142,248
Net earnings	147,009	193,966
Capital expenditures	25,149	38,838
Balance sheet		
Working capital	246,540	135,651
Investments	413,938	398,234
Fixed assets	343,486	356,160
Other assets (liabilities)	(20,767)	(2,027)
Long-term debt	(167,172)	(212,500)
Minority interests	(20,788)	(5,770)
Shareholder's equity	\$ 795,237	\$ 669,748

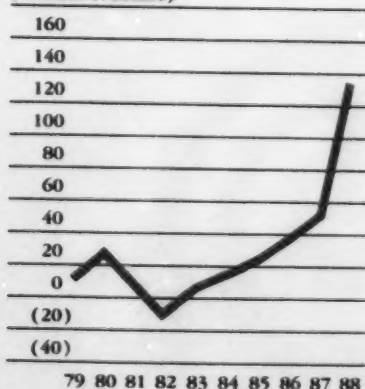
SALES

(millions of dollars)

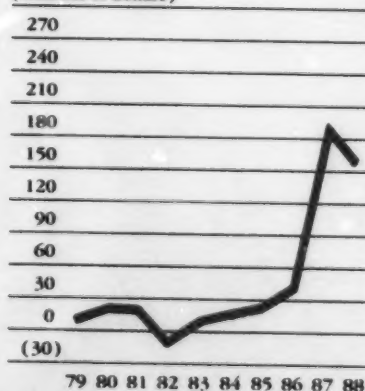


1986	1985	1984	1983	1982	1981	1980	1979
\$ 315,639	\$ 699,139	\$ 779,297	\$ 852,892	\$ 829,770	\$ 801,132	\$ 808,381	\$ 578,830
55,682	131,492	136,265	89,843	85,392	121,642	125,538	82,216
11,450	37,618	37,677	36,855	27,407	24,396	21,007	19,639
7,851	43,336	47,563	40,780	47,329	45,396	31,995	28,431
3,496	11,905	15,795	11,148	14,805	17,525	9,235	6,511
(73)	19,295	18,093	3,017	16,078	33,994	32,955	16,081
39,950	43,148	48,727	20,339	9,383	35,381	48,816	24,576
(275)	(22,767)	(33,911)	(15,280)	(23,725)	(27,455)	(27,601)	(15,646)
39,675	20,381	14,816	5,059	(14,342)	7,926	21,215	8,930
2,982	6,410	4,330	262	3,933	12,385	1,355	563
42,657	26,791	19,146	5,321	(10,409)	20,311	22,570	9,493
\$ 86,361	\$ 217,816	\$ 85,027	\$ 45,065	\$ 89,635	\$ 127,097	\$ 94,115	\$ 19,944
16,149	167,259	151,145	163,589	140,580	194,332	161,857	131,849
345,471	262,779	228,812	166,743	157,087	166,942	23,073	29,660
342,699	701,844	533,148	496,577	491,339	431,848	328,843	255,813
18,648	(11,779)	(38,028)	(25,207)	(42,250)	(40,661)	(29,107)	(15,040)
(234,541)	(451,015)	(359,787)	(351,960)	(308,145)	(420,402)	(212,834)	(210,437)
(10,056)	(267,800)	(200,296)	(179,520)	(202,794)	(143,833)	(120,049)	(87,222)
\$ 478,370	\$ 401,288	\$ 314,994	\$ 270,222	\$ 235,817	\$ 188,226	\$ 151,783	\$ 104,623

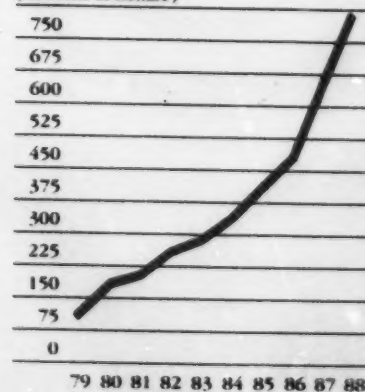
**EARNINGS BEFORE
EXTRAORDINARY ITEMS**
(millions of dollars)



NET EARNINGS
(millions of dollars)



SHAREHOLDER'S EQUITY
(millions of dollars)



Financial Highlights by Industry Sector

(thousands of dollars)

	1988	1987	1986	1985	1984
ALUMINUM					
Albecour, société en commandite					
Assets	\$ 379,176	\$ 328,900	\$ 311,491	-	-
Sales	162,072	110,908	21,788	-	-
Net earnings	64,349	23,156	6,411	-	-

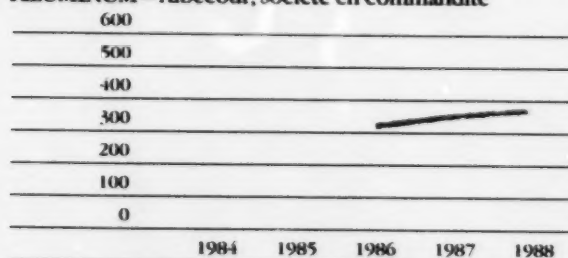
PETROCHEMICALS

Éthylec Inc.

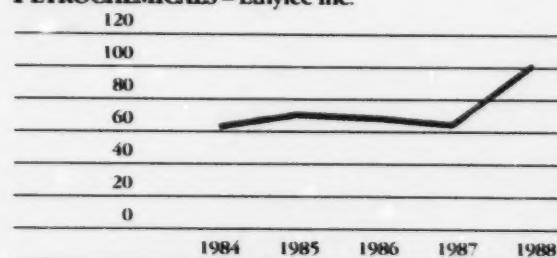
Assets	\$ 103,424	\$ 65,572	\$ 70,707	\$ 72,883	\$ 61,790
Sales	162,848	118,291	88,359	97,235	85,180
Net earnings	47,230	8,380	958	3,223	566

ASSETS BY INDUSTRY SECTOR (millions of dollars)

ALUMINUM – Albecour, société en commandite



PETROCHEMICALS – Éthylec Inc.



	1988	1987	1986	1985	1984
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FOREST PRODUCTS

Dofor Inc.

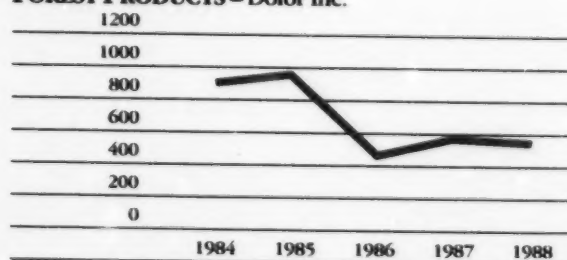
Assets	\$ 582,764	\$ 590,067	\$ 444,836	\$ 985,151	\$ 905,492
Sales	-	-	-	-	-
Net earnings	36,118	206,633	52,575	33,816	30,015

SHIPBUILDING AND ENERGY-RELATED EQUIPMENT

Le Groupe MIL Inc.

Assets	\$ 182,700	\$ 202,133	\$ 89,704	\$ 124,297	\$ 120,644
Sales	240,791	241,115	153,168	113,812	117,715
Net earnings (net loss)	(18,225)	(48,640)	1,536	(5,591)	(2,989)

FOREST PRODUCTS - Dofor Inc.



SHIPBUILDING AND ENERGY-RELATED EQUIPMENT - Le Groupe MIL Inc.



Human Resources

SGF considers that the skills and dedication of its personnel are a determining factor in the accomplishment of its mission. The company's policies and practices in the management of its human resources are accordingly designed to attract and retain a superior calibre of personnel.

To stimulate motivation, SGF has established a new system of performance evaluation and compensation to ensure that its working conditions are attractive and competitive.

The companies of Le Groupe SGF employed a total of 21,328 people at the end of the 1988, an increase of 1,110 over the previous year. The increase was due mainly to the resurgence of activity at MIL shipyards and the start-up of commercial operation of the first paper machine at Domtar's Windsor mill in July

1988. Domtar has implemented a \$25 million training program at this facility to enable its employees to work effectively in a highly computerized operating environment.

Employment levels in SGF companies will grow over the coming years as the projects currently under way are completed. These projects are expected to create approximately 4,200 direct permanent jobs in the next five years.

PROTECTION OF NONSMOKERS

SGF has taken the measures necessary to ensure a smoke-free environment for employees and visitors as prescribed by the Act Respecting the Protection of Nonsmokers in Certain Public Places.

SGF offers to its personnel attractive and competitive working conditions.



NUMBER OF EMPLOYEES BY INDUSTRY SECTOR

As at December 31	1988	1987
ALUMINUM		
Albecour Inc.	8	8
Aluminerie de Bécancour Inc.	756	771
PETROCHEMICALS		
Alcools de Commerce Enrg.	73	70
Pétromont, société en commandite	250	240
FOREST PRODUCTS		
Domtar Inc.	15,965	15,871
SHIPBUILDING AND ENERGY-RELATED EQUIPMENT		
Le Groupe MIL Inc.	4,248	2,942
OTHERS	28	316
TOTAL	21,328	20,218

Board of Directors

MICHEL AUDET

Deputy Minister
Ministère de l'Industrie, du
Commerce et de la Technologie

ANDRÉ BÉRARD*

President and Chief Operating Officer
National Bank of Canada

PAUL BERTHIAUME*

Chairman of the Board,
President and Chief Executive Officer
Le Groupe SGF

FRANCO FAVA°

Secretary
Neilson Excavation Inc.

YVES GRATON†

President and Chief Executive Officer
Hôtel Le Chantecler

ROBERT GRATTON*

Chairman of the Board,
President and Chief Executive Officer
Montreal Trust Company

YVES GUÉRARD*

President
The Sobeco Group

YSEULT LEFEBVRE-RICHARD

President
J.B. Lefebvre Limitée

GEORGES-A. POULIOT, Q.C.°

Senior Partner
Pouliot, Mercure

J. FRANK ROBERTS°

Company Director

HENRI A. ROY†

Executive Vice-President
Provigo Inc.

ROBERT TESSIER

President and Chief Executive Officer
Le Groupe MIL Inc.

JOHN D. THOMPSON*

President and Chief Executive Officer
RoyNat Inc.

Management

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Chairman of the Board,
President and Chief Executive Officer

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Vice-President, General Counsel
and Secretary

CLAUDE HÉLIE

Vice-President, Finance and Treasurer

LOUIS-M. RIOPEL

Vice-President, Corporate
Development

MANLEY S. SCHULTZ

Vice-President, Aluminum

GUY OUMET

Associate Vice-President,
Metals and Minerals

ROXANE MARCIL

Assistant to the President

MICHEL R. BÉLAND

Legal Counsel and
Assistant Secretary

MARTIN J. DESMEULES

Director, Aluminum

RICHARD FREDETTE

Director, Planning

FRANÇOIS GHALI

Director, Communications

BERNARD HAMEL

Director, Transportation Equipment

PATRICK G. HIRON

Director, Petrochemicals

JACQUES MALLETT

Controller

FRANÇOIS R. ROY

Director, Finance

At December 31, 1988

* Member of the Executive Committee

° Member of the Audit Committee

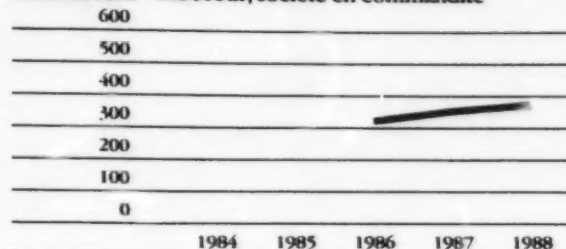
† Member of the Human Resources
Committee

Financial Highlights by Industry Sector

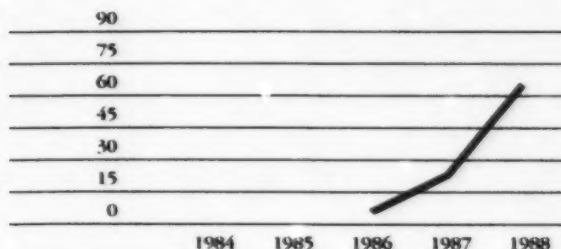
(millions of dollars)

ASSETS

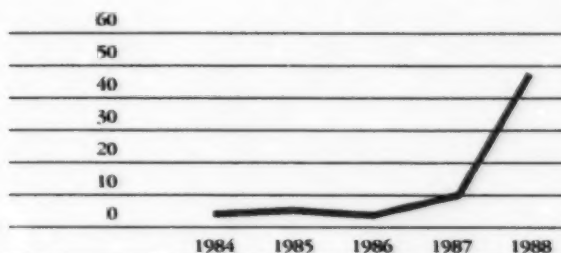
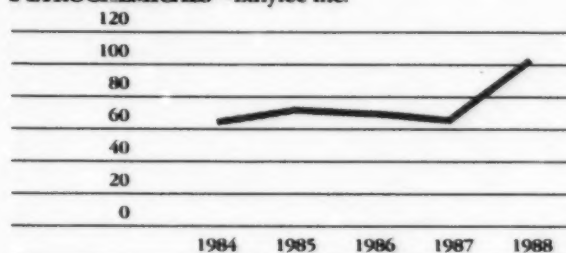
ALUMINUM – Albecour, société en commandite



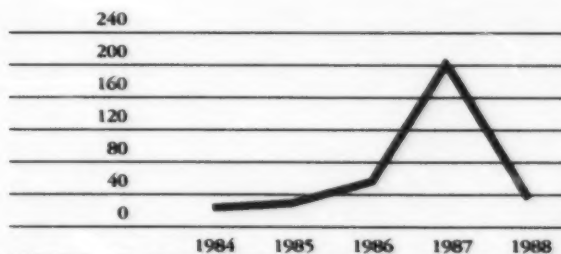
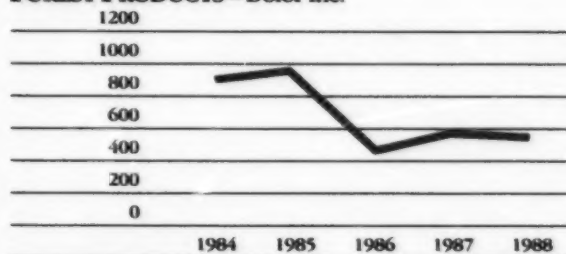
NET EARNINGS



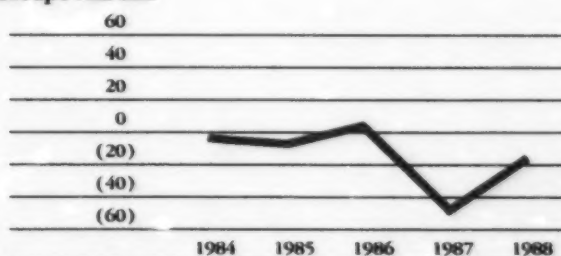
PETROCHEMICALS – Éthylec Inc.



FOREST PRODUCTS – Dofor Inc.



SHIPBUILDING AND ENERGY-RELATED EQUIPMENT – Le Groupe MIL Inc.



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